

**Before the
Federal Communication Commission
Washington, D.C. 20554**

In the Matter of)	
)	
Federal-State Joint Board on)	CC Docket No. 96-45
Universal Service)	
)	
1998 Biennial Regulatory Review –)	CC Docket No. 98-171
Streamlined Contributor Reporting)	
Requirements Associated with Administration)	
of Telecommunications Relay Service, North)	
American Numbering Plan, Local Number)	
Portability, and Universal Service Support)	
Mechanisms)	
)	
Telecommunications Services for Individuals)	CC Docket No. 90-571
with Hearing and Speech Disabilities, and the)	
Americans with Disabilities Act of 1990)	
)	
Administration of the North American)	CC Docket No. 92-237
Numbering Plan and North American)	NSD File No. L-00-72
Numbering Plan Cost Recovery Contribution)	
Factor and Fund Size)	
)	
Number Resource Optimization)	CC Docket No. 99-200
)	
Telephone Number Portability)	CC Docket No. 95-116
)	
Truth-in-Billing and Billing Format)	CC Docket No. 98-170

Comments Of:

Fred Williamson and Associates, Inc. (“FW&A”)

On behalf of:

**Chouteau Telephone Company, an Oklahoma ILEC
H&B Telephone Communications, Inc., a Kansas ILEC
Moundridge Telephone Company, Inc., a Kansas ILEC
Pine Telephone Company, Inc., an Oklahoma ILEC
Pioneer Telephone Association, Inc., a Kansas ILEC
Totah Telephone Company, Inc., a Kansas and Oklahoma ILEC
Twin Valley Telephone, Inc., a Kansas ILEC
(Collectively, “ILECs”)**

BACKGROUND

The ILECs are small rural LECs who have an interest in the outcome of this proceeding. The ILECs are both recipients and contributors of federal universal funds. The stability of the Universal Fund is of critical importance to these ILECs. They serve rural areas with low population density and high service costs. Federal universal service support is necessary and must be sustained for maintenance of affordable rates in the rural areas served by the LECs. Since the ILECs assess their customers for their share of Federal Universal Service contributions, they desire a contribution mechanism that is fair and equitable. All of the ILECs are members of the NECA Common Line and Traffic Sensitive Pools and accordingly charge interstate access rates and Universal Service Charges in accordance with NECA tariffs. In this proceeding the Commission is seeking comments regarding proposals to modify the basis of Federal Universal Service Fund contribution assessments from the current “revenue-based” approached to a “connection-based” approach. The ILECs have several concerns with the proposals contained in the Further Notice of Proposed Rulemaking (FNPRM) in this docket and accordingly submit these comments for the Commission’s consideration.

SUMMARY OF COMMENTS

The ILECs support the continuation of the current “revenue-based” assessment. Historical revenues are an approach for assessment of universal service contributions and promote the goals contained in the Telecommunications Act of

1996 (Act). The Act mandates that “every telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service.”¹ Additionally the Act provides the Commission with permissive authority to require “[a]ny other provider of interstate telecommunications” to contribute to universal service if required by the public interest.² The Commission, in past investigations, has required entities that provide interstate telecommunications to end-users for a fee to contribute to universal service. The Commission is concerned that in the long run, interstate long distance revenues may decline and not serve as a sustainable basis for determining universal service contributions. The Commission’s goal in considering modifications to the current assessment system is to ensure the stability and sufficiency of the universal service fund as the marketplace continues to evolve. The ILECs support this goal. In the FNPRM, there is not sufficient evidence to show that the current revenue-based system cannot be sustained or is inappropriate. The proposed connection-based assessment would inappropriately shift a substantial portion of the USF contributions from IXC providers to ILEC and wireless providers. By virtually exempting interexchange carriers (IXCs), the largest segment of interstate service providers, from universal service contributions, the proposed connection-based assessment is not consistent with the Act’s intent that contribution mechanisms be “equitable and nondiscriminatory.” In cases where IXCs do not provide last-mile connectivity to end-users, they would not be

¹ 47 U.S.C. § 254(d)

responsible for making USF contributions for interstate services they provide to these end users. If the Commission pursues a connection-based approach, it should be implemented in a manner that does not result in substantial shifts of the current contribution obligations among interstate service providers. The minimum requirement should be that IXC's and any other service provider that has connectivity with the public network should be assessed for a connection on a basis that is equivalent to the amount assessed to LEC's and mobile service providers.

The ILEC's support the Commission's proposals that would promote reasonable markups of USF contributions and provide for uniform language or labeling of USF charges on customers' bills. The ILEC's do not support the implementation of a "collect and remit" system. Such a system may cause instability in the collection of assessments that are essential for universal service funding.

**THE COMMISSION SHOULD CONTINUE TO USE REVENUES AS THE
PRIMARY BASIS FOR USF CONTRIBUTION ASSESSMENTS**

The Commission, in implementing the provisions of the 1996 Act, "decided to assess contributions on contributors' gross-billed end-user telecommunications revenues."³ This method of assessment, in compliance with the Act, is equitable and nondiscriminatory and has provided a stable source of USF funding requirements since its inception. There is not enough evidence at this time to support a conclusion that the revenue-based assessment mechanism is not sustainable. Recently, and in this proceeding, the Commission has made changes

to improve methods of reporting revenues and determining assessment of universal service fund (USF) contributions, including reducing the interval for accrual of revenues and reporting of revenues to USAC for assessment purposes from 12 months to 6 months. The Commission should continue to base USF assessment contributions on historical revenues.

There is not Sufficient Evidence Available for the Commission to Conclude that the Current Revenue-Based Contribution System is Not Sustainable.

In the FNPRM, the Commission questions the sustainability of revenue-based USF contributions and proposes replacing the current system with a connection-based system. The Commission raises several concerns with continuing the current revenue-based assessment system. The FNPRM discusses changes that have occurred in the market place and tentatively concludes that revenues may not serve as a sustainable basis for assessment of USF contributions. The concerns identified in the FNPRM include:

- Assessable interstate revenues have declined for interexchange carriers that are now responsible for paying for the majority of USF contributions. The Commission speculates that interstate revenues will decline further in the future.⁴
- Since the current system is based on historical revenues, providers with increasing interstate revenues may gain competitive advantages over providers with decreasing revenues. New entrants may be able to undercut the prices of

³ FNPRM , Para. 22

⁴ FNPRM, paras. 7 and 8

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established providers to the extent that they do not bear the same proportion of USF contributions.⁵

- Customers are migrating from wireline to wireless services for interstate long distance. This is eroding revenue from interexchange services, which is the primary contribution source for universal service funding.⁶
- Marketplace developments have blurred the distinctions between interstate/intrastate and telecommunications/non-telecommunication revenues on which the current contribution system is based. Wireless service plans offered to customers do not distinguish between local and long distance and interstate and intrastate calls which compounds the difficulty in identifying interstate revenues for assessment purposes.⁷
- The development of new technologies such as “Voice over Internet,” will further complicate being able to distinguish services between interstate and intrastate and telecommunications and non-telecommunications. This may also reduce the amount of assessable revenues reported under the current system.⁸

The ILECs share the Commission’s concerns that the assessment base for the Universal Service Fund should be sustainable. The concerns expressed by the Commission are important to consider; however, it is not apparent that there will be significant erosion of the interstate revenue base. In the FNPRM, it is observed that annual assessable revenues declined in 2000, the first time since

⁵ FNPRM, paras. 9 and 10

⁶ FNPRM, para. 11

⁷ FNPRM, para. 12

⁸ FNPRM, para 13

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such data has been compiled. It is also stated that assessable revenues declined in the first quarter of 2001 and that an analyst projected that United States long distance revenues will decline by 12 percent in 2001.⁹

Reductions in interstate assessable revenue have occurred, but it appears that the concerns may be exaggerated. In the table below, historical or reported interstate retail revenue data has been compiled from the USAC administrative reports for the first 6 months of each year since 1998. The assessable revenues from those reports are shown in the table below along with the percentage change from the prior year's assessable revenues. This information was readily available from the USAC and FCC web sites.¹⁰

Year	Assessable Revenues For January - June	% Change From Prior Year
1998	\$37.1B	N/A
1999	\$39.0B	5.0%
2000	\$41.0B	5.1%
2001	\$39.7B	(3.1%)

While it appears that the growth being experienced previously has subsided, assessable revenues have not declined dramatically, but have basically flattened-out. Certainly the decline in 2001 was substantially less than the analyst projection cited in the FNPRM. In fact, in the FNPRM it is acknowledged in

⁹ FNPRM, para 8

¹⁰ This information was compiled from the *USAC Federal Universal Service Support Mechanisms Fund Size Quarterly Fund Size Projection and Contribution Bases*.... available on the FCC and USAC web sites. Assessable revenues for the first six months of 1998, 1999, 2000, and 2001 were available from the site. Also revenues from the last six months of 1999 and 2001 were available from the site. Since data from the last six months was missing for two of the years (1998 and 2000), the analysis utilizes only the first six months of data for comparative purposes.

Footnote 15 that revenues for the third quarter of 2001 increased over the second quarter revenues (\$20.5B versus \$19.6B). However, the assessable revenues for the third and fourth quarters of 2001 are approximately the same as the first half of the year or \$39.7B. Based on the actual assessable revenues, it is not apparent that sharp declines are being experienced. The declines in revenue in 2001 could also be attributed to factors other than those mentioned in the FNPRM. For instance, the slow-down in the economy could have a substantial impact on the amount of interstate services utilized by businesses and consumers. The reduction and flattening of reported interstate revenues appears to correspond with the general economic slow-down in the United States. Interstate revenues may increase as the economy recovers. Moreover, as discussed below, the Commission could make changes that could increase the assessable revenue base. There is simply not enough empirical data available at this time to make it apparent that there will be significant reductions in assessable interstate revenues and to support a conclusion that the current revenue-based assessment mechanism is not sustainable.

Short-Term Competitive Impacts of the Current Revenue-Based Assessment Mechanism are not Significant.

Concerns have been expressed by non-supporters of the revenue-based assessment that the revenue-based assessment may enable providers with increasing revenues to have a competitive advantage over providers with declining revenues. It appears any such anomaly, to the extent it may exist, would be very short-lived. The Commission's recent action reducing the interval

for accrual and reporting of revenues from 12 to 6 months should help to minimize any short-term impacts or purported competitive advantages. Further, it does not appear that USF assessments of approximately seven percent of a carriers reported revenues could have a significant affect on a long distance provider's pricing strategy. Most providers have also chosen to make USF assessments a separate line item on the customer's bill and not bundle it with the rates they charge for long distance services. Thus, any purported short-term competitive impacts of the revenue-based assessment could not be significant.

The Commission May Want to Consider Expanding the Assessable Revenue Base by Modifying the Wireless Safe Harbor Percentages.

The ILECs agree with the observation in the FNPRM that there has been significant migration from wireline long distance services to wireless services. A key marketing strategy of wireless providers is to bundle local and long distance minutes so there are not separate charges for long distance calls. A minute is charged as a minute regardless of whether it is a local call or a long distance call. Most wireless carriers offer nationwide and regional calling plans and many consumers subscribe to these plans. This has increased the amount of long distance and interstate calls placed by wireless subscribers, since subscribers do not incur extra charges for placing long distance calls. It may be appropriate for the Commission to reexamine the "safe harbor" percentages that it set for wireless service providers to ensure that they are accounting for an appropriate level of interstate long distance usage. Currently, the "safe harbor" percentage is 15 percent for cellular and PCS providers. The benchmark for paging operators is 12

percent, while analog Specialized Mobile Radio providers have a benchmark of 1 percent. Carriers claiming that interstate revenues are less than these levels are required to justify those levels to the Commission. The wireless service packages and related traffic has changed considerably in the last four years since the Commission established these percentages. The Commission may want to solicit studies of wireless usage and modify the safe harbor percentages accordingly. This may result in an increase in the assessable revenues reported by wireless providers.

The Revenue Funding Base May also be Increased if the Commission Decides to Assess all Facilities-Based Internet Service Providers for Universal Service.

The impacts of “voice over Internet” on the level of assessable revenues are not known at this time. However, it appears with some further advancement in technology that would improve the quality of the voice transmission, some migration of traffic could occur. The extent of the potential impact of such migration is not known at this time. In the companion proceeding (CC Docket No. 02-33), the Commission is considering whether to assess all facilities based Internet service providers for USF contributions. Since the Internet provides access to the public network and will be capable of transmission of telephone calls, it is appropriate that all providers of Internet services should be assessed for universal service costs. This could help to offset the potential loss of assessable revenue to “Voice over Internet” traffic.

Historical Revenues Should Continue to Serve as the Basis for Revenue-Based Assessments

The FNPRM also seeks comments regarding whether current or projected revenue should be used instead of historical revenues, if the revenue-based assessment is continued. There does not appear to be a need to depart from historical revenues as the basis of USF assessments. Current revenue would not appear overall to vary substantially from historical revenue. The current system bases assessments on quarterly revenue with a 6-month lag between revenue accrual and reporting. Current revenue for a most recent month or quarter typically should not vary substantially from the historical revenue reflected in the current assessment base. There would also be some time lag necessary for reporting of data by carriers and processing by the Administrator. Significant benefits would not be obtained by implementation of a current-revenue approach. Also, there would be a need to define “current.” Would it be the most recent month of business activity or the most recent two months of business activity, etc.? Regarding use of projected revenue for assessments, there is no guarantee that revenue projections would be accurate. This approach would provide carriers with an incentive to understate the projected revenue to lower their USF assessment. This would invite gaming of the system and would be inappropriate. Additionally, it would saddle the administrator with the unenviable position of evaluating the reasonableness of projected revenues. Ultimately, as a matter of fairness, it would be necessary to true-up assessments to historical revenue to correct the impacts of inaccurate projections. Thus, at the end of the process, it appears that assessments to

providers would be reflective of historical revenue levels. Administratively, it is more efficient to continue with assessments based on historical revenue.

**THE PROPOSED END USER CONNECTIONS-BASED ASSESSMENT IS NOT
CONSISTENT WITH THE ACT'S REQUIREMENT THAT INTERSTATE
SERVICE PROVIDERS CONTRIBUTE ON AN EQUITABLE AND
NONDISCRIMINATORY BASIS AND IF IMPLEMENTED REQUIRES
MODIFICATION**

In the FNPRM, the Commission seeks comments on assessing contributions based on the number and capacity of connections. The Commission proposes that residential, single-line businesses, and mobile wireless connections (excluding pagers) would be assessed a flat amount of \$1.00 per connection, paging connections would be assessed \$0.25 per connection, and the remaining universal service funding needs would be recovered through capacity-based assessments on multi-line business connections.¹¹ The Commission also seeks comments regarding alternatives for the connection-based assessment system and the potential impact of transitioning to a connection-based assessment system on different industry segments, either by maintaining the current system's burden allocation, or by requiring multiple providers to contribute based on the connection provided to a particular consumer.

As discussed in the prior section, the ILECs support the continuation of the revenue-based assessments. The ILECs have the following concerns with the

¹¹ FNPRM para. 31
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connection-based assessments. First, as defined in the NPRM, assessments based on connections may exempt providers of interstate interexchange services from a significant share of their current funding responsibility. This does not meet the Act's requirement that interstate service providers contribute on an equitable and nondiscriminatory basis. Second, assessment to multi-line providers based on the capacity of connections may impose substantial fees on multi-line and other customers and may have adverse consequences. Finally, use of capacity-based assessments imposed on broadband services may result in adverse impacts on the ILECs' current broadband customers and the expansion of broadband services. If the Commission desires to convert to connection-based assessments, the method should be modified so that all interstate service providers contribute on a fair and equitable basis and high capacity connections are not over-burdened with USF assessments.

The Connection-Based Assessment as Proposed is Inequitable and May Have an Adverse Affect on the Maintenance of Affordable Rates.

The connection-based assessment proposed in the FNPRM would assess local exchange carriers, interexchange carriers and mobile wireless providers based on the number and capacity of end-user connections they provide to the public network.¹² As the Commission acknowledges in the FNPRM, this shifts contribution obligations away from interexchange carriers to local exchange carriers and mobile service providers. Data provided in the FNPRM shows that IXC's, under revenue-based assessments, are currently assessed approximately 63% of the total contributions, while local exchange carriers and mobile providers

are assessed the majority of the remaining contributions.¹³ Interstate carriers are providers of interstate services and should be assessed accordingly. As the data shows, they provide services that generate the majority of interstate retail revenues. There is no compelling reason to virtually exempt IXC providers from a significant portion of their contribution obligations.

Under the connection-based proposal, IXCs would only be assessed when they provide connections to the public network. The only instance where it appears that IXCs would be assessed is cases where they provide private-line service connections to mainly large business customers. Toll services provided by IXCs to residential, single line business customers and for multiline customers when end user connections are not provided by the IXC, would be exempt from assessment. This would comprise the overwhelming majority of connections to the public network. Consequently, the majority of the current IXC contribution amounts would shift to the LECs and mobile service providers since they provide the end user connections to the public network.¹⁴ The ILECs do not have data that shows the number of connections IXCs currently provide. However, it is evident that the current IXC assessment percentage of approximately 63 percent would drop substantially and the IXCs would pay only a small percentage of the future assessments. Conversely, LECs that are local service providers would be

¹² FNPRM para. 59

¹³ Id.

¹⁴ The ILECs do not have data that is necessary to determine the full impact of the connection-based assessment. However, in the analysis in the FNPRM the Commission showed that mobile service providers' assessments would increase from 14 percent to 24 percent. Data was not provided in the FNPRM regarding impacts on LECs. However, it appears that the LECs percentage contributions would increase substantially above the 15% that they are currently assessed. LECs would be responsible for the majority of the remaining assessments that comprise 76 percent of the total assessments. Obviously, the potential large percentage shift would saddle the LECs that provide the smallest percentage of the total

responsible for paying the majority of the assessments formerly paid by the IXC's. In essence, the connection-based approach would shift assessments from interstate toll services and users of those services, provided by IXCs, to the LEC's local exchange customers regardless of the levels of interstate toll service that they utilize. The connection-based approach proposed by the Commission does not comply with the Act's requirements that interstate service providers contribute on an equitable and nondiscriminatory basis.

The proposed connection-based assessment is not equitable to LECs or their customers and may exacerbate the maintenance of affordable rates for subscribers of local exchange services. While the proposed amount of the connection-based assessment for residential customers of \$1.00 may not seem substantial, it is important to realize that this amount would be in addition to several other increases to rates charged to the LEC's local service subscribers. Specifically, the MAG plan recently adopted by the FCC will transition most residential customer's Subscriber Line Charges or End User Common Line Charges from \$3.50 to \$6.00. Additionally, local service rates are being increased to recover a greater portion of costs. For example, the ILECs operating in Kansas, based on recent action by the Kansas Corporation Commission, will transition their local rates from approximately \$7.50 per line/month to \$12.00 per line/month. The continuing trend of recovering costs directly from end-users, especially as the Federal Universal Service Fund grows in size, may exacerbate the maintenance of affordable rates.

interstate services with the majority of the USF assessment. This result is clearly not equitable and not consistent with the intent of the Act..

**Assessment to Multi-Line Providers Based on the Capacity of Connections
May Impose Substantial Fees on Multi-Line and Other Customers and May
Have Adverse Consequences on the Expansion of Broadband Services.**

The Commission proposes assessing multi-line business connections based on capacity of those connections. As an initial proposal, the Commission seeks comments on whether contributions from providers of multi-line business connections should be a residual amount calculated to meet the remaining universal service funding needs not met by contributions from residential, single-line businesses and mobile connections. Alternatively, the Commission requests comments on whether to assess all connections the same amount regardless of the capacity of the connection.

Data presented in the FNPRM exemplifies the potential assessments to multi-line business connections under a capacity based proposal. The Commission proposes three tiers with corresponding assessment amounts based on capacity of the connections. These are shown in the table below.¹⁵

Tier and Description	Assessment per Connection
Tier 1 – Less Than 1.544 Mbps	\$4.00
Tier 2- Greater than 1.544 Mbps and Less than 45 Mbps	\$20.00

¹⁵ These amounts assume a residual funding requirement of \$4 billion and 1 billion units of multilane business capacity. (See FNPRM para. 52)

Tier 3 – Greater than 45 Mbps	\$160.00
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Accepting the assumptions underlying the Commission's proposal, it appears that capacity-based assessments would result in significant amounts per line, especially for higher capacity circuits. Several ILECs are currently deploying DSL services. The ILECs are utilizing DSL technology to provide high-speed Internet access and other broadband services over their networks. If a consistent approach is followed and the multi-line business approach proposed by the Commission is expanded to DSL connections, adverse impacts may result. DSL technology enables connections with capacity that could easily fall within the Tier 2 classification. The NECA tariff rate for DSL connections falls within the \$30.00 to \$40.00 range depending on the options selected. If the connection capacity fell within Tier 2, the \$20.00 assessment would be equivalent in most cases to more than 50 percent of the total tariff rate per connection. Under the current revenue-based system, providers are assessed an equivalent amount of approximately \$2.00 to \$2.50 per DSL connection. The significant additive imposed by the proposed capacity-based assessment, if passed on to subscribers, could be a major deterrent to customers subscribing to advanced high capacity DSL services. Without adequate customer demand, LECs would have less incentive to expand the offering of broadband services. The ILECs have not analyzed the impact on services that would fall within Tier 3; however, it appears that the assessment for Tier 3 is rather large and could also serve as a deterrent to customers subscribing to high capacity services, especially in the rural areas they serve. If the Commission adopts connection-based assessments, it should

carefully consider the impacts on customers with high capacity connections. It appears that the revenue-based approach provides a much more reasonable level of assessment on high capacity services than the connection-based approach proposed by the Commission.

If the Commission proceeds with a connection-based approach, assessment of identical amounts for all connections may be reasonable, as long as the connection-based assessment for residential customers would not result in significant increases in charges per line. Based on the current funding requirements of approximately \$5 billion annually¹⁶ and total end user connections of approximately 300 million,¹⁷ the assessment per connection under this approach would be approximately \$1.40 per line/month. While this helps to move multi-line connection charges to a much lower level, it saddles single line subscribers with a larger portion of the funding burden. If the Commission desires to have multi-line and high capacity assessments higher than residence and single line business assessments, the ILECs believe that assessments for multi-line and high capacity connections should be generally no more than the equivalent amount currently assessed under the existing revenue-based approach.

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¹⁶ Universal Service Administrative Company, Federal Universal Service Support Mechanisms Fund Size Quarterly Contribution Based for the First Quarter, 2002, November 30, 2001.

¹⁷ This was developed based on estimates of total lines contained in the Trends in Telephone Service, Common Carrier Bureau, Industry Analysis Division (showing approximately 190 million access lines). Wireless connections were obtained from Footnote 95 of the FNPRM (showing approximately 110 million mobile wireless subscribers)

¹⁸ For example if a customer is assessed for a DSL connection that they are currently purchasing from a LEC for \$40.00 per month, the connection-based charge should not exceed \$2.75 per month (6.8% assessment percentage multiplied by \$40.00 per month.)

If the Commission Desires to Convert to Connection-Based Assessments, the Method Should be Modified so that All Interstate Service Providers Contribute on a Fair and Equitable Basis

If the Commission adopts a connection-based assessment approach, changes should be made to the proposal so that all providers of interstate services contribute in an equitable and nondiscriminatory manner. The Commission has previously concluded that assessments based on end-user telecommunication revenues is a reasonable approach and complies with the Act. Sprint's proposal to move to a connection-based assessment system, but maintain the relative contribution burdens on different industry segments under the existing revenue-based assessment system¹⁹ may have merit and make the connection-based system more equitable. Under Sprint's proposal, the relative percentages of contributions for each industry segment would be maintained in the development of a connection based charge.²⁰ Sprint estimates that there would be an assessment of \$2.01 per month for each fixed connection and \$.046 per month for each mobile connection. The \$2.01 assumes that all residential, single-line businesses and multi-line connections would be assessed the same amount per connection.

While the proposal by Sprint is a start in providing for a more equitable

¹⁹ FNPRM, para 60

²⁰ Calculation of the percentage assessment by industry segment and the related contribution charges are explained in Paragraph 60 of the FNPRM.

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connection-based assessment system, modifications are necessary. Sprint proposes that the revenue percentages not change for three to five years. The revenue percentages should be updated at least annually to recognize changes in the distribution of revenues among industry segments. Also, the plan should be modified so that interexchange carriers are assessed for the portion of the connection-based assessment attributable to interstate IXC revenues. In other words, a separate connection-based fee should be developed for IXCs. The \$2.01 proposed by Sprint should be split between the LEC portion and IXC portion based on each segments' respective revenues. IXCs could be assessed on the basis of presubscribed lines or billed telephone numbers in lieu of connections. Under this approach, and assuming the current interstate revenue distribution percentages of 63 percent for IXCs, 23 percent for LECs and 14 percent for mobile wireless providers,²¹ IXCs would be assessed a connection charge of approximately \$1.40 and ILECs would be assessed a connection charge of approximately \$.50.²² If multi-line connections are assessed higher charges, the amount of connection-based assessments for residence and single line business customers would be less than the amounts shown above. This approach would maintain the connection-based charge in proportion to each market segments' respective revenues and would result in an equitable distribution of USF assessments in compliance with requirements of the Act.

²¹ See FNPRM, para. 59

²² These amounts were developed as follows:

	Total	IXC*	LEC	Mobile
1. Percentage of Interstate Retail Revenue (Note 13, <i>Supra</i>)	100%	63%	23%	14%
2. Distribution of USAC Funding Requirements (L1*\$5.0B)	\$5.0B	\$3.2B	\$1.2B	\$0.7B
3. Approx. Lines and Wireless Sets. (Note 17, <i>Supra</i>)	490M	190M	190M	110M
4. Assessment Per Month (L2/L3/12)	\$0.85	\$1.40	\$0.53	\$0.53

*IXC connections are assumed to equal LEC end-user connections.

If the Commission does not support the continuation of assessments in proportion with revenues, IXCs should still be assessed since they are significant providers of interstate services. Thus, using the numbers discussed previously, LECs, IXCs and mobile wireless providers would each be assessed approximately \$0.85 per connection.²³ If the Commission concludes in the companion docket that facility-based Internet service providers should be assessed for universal service costs, this amount would be reduced.

OTHER ISSUES RELATED TO CARRIER ASSESSEMENTS

The Commission seeks comments on several issues related to carriers' practices regarding charges to end-users for the recovery of the carriers' USF contributions. Comment is sought regarding whether to continue to provide carriers with flexibility in the recovery of universal service contribution-related costs, but to adopt modifications to promote recovery practices that are just and reasonable and non-discriminatory. The proposed modifications concern: uniformity in applying separate line items on any customer bill; the percentage mark-up of the carrier assessment that is included in the related charges on the customer's bill; implementation of a "collect and remit" system for contributions; and labeling of a separate line-item charge on customer bills to recover the carrier contribution costs.

²³ i.d. ("Total" column)
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The ILECs support the continued flexibility in how carriers recover universal service contributions. This flexibility enables carriers to assess charges to their customers in a manner that is suitable and the least confusing for their customers. However, the ILECs appreciate the Commission's efforts to adopt guidelines that promote carriers assessing charges for universal service contributions in a just and reasonable manner. General guidelines may help guide carriers and limit potential abuse of the USF contribution system by carriers. Below are the ILEC's comments for each of the Commission's proposed modifications.

The ILECs Support Requiring Uniformity in Applying Separate Line Items on any Customer Bill.

The Commission proposes that if a carrier elects to recover its contributions through a separate line item on any customer bill, that the carrier would be required to do so in a non-discriminatory manner by making the separate line item uniform for all customers. This is a reasonable expectation and should be adhered to by carriers that elect to recover contributions through a separate line item. The ILECs support the proposal that separate line items for recovery of contributions be applied to customers in a non-discriminatory manner.

It is Appropriate for the Commission to Promote a Reasonable Mark-Up of the Carrier Assessment that is Included in the Related Charges on the Customer's Bill.

The Commission seeks comment on whether to require carriers to make mark-up amounts uniform across all customers and classes of customers and the

establishment of a safe harbor percentage for evaluation of the reasonableness of mark-ups. Given the past abuse of the universal service contribution system by some carriers through excessive mark-up practices, such a requirement would serve the public interest. To begin with, there should not be a need for a substantial mark-up of the carrier assessment, much less higher mark-ups for different classes of customers. Nevertheless, it is reasonable to expect carriers to mark-up the contribution assessment to recover billing and collection and other costs and for mark-ups to vary by carrier. The Commission's proposal to establish a percentage safe harbor reflecting a fair approximation of a carrier's costs incurred in the recovery of universal service contributions may help to promote charges to customers that are reasonable. Treating mark-ups that are at or below the safe harbor percentage as presumptively reasonable is a fair approach.

The Commission seeks comments regarding information that may be used to analyze and develop safe harbor percentages. The Commission could examine filed ARMIS cost data to assist in the establishment of a safe harbor percentage markup for Tier 1 LECs. For other LECs, the Commission could utilize a sample of rate-of-return carriers' costs filed in support of interstate access tariff filings. ARMIS data and cost support are prepared in conformance with the Commission's Part 69 Rules and include a category that identifies the fully distributed costs of billing and collection for local exchange carriers. This could be used as a guideline for determining carrier billing and collection costs and other administrative costs. The ILECs are not aware of publicly available cost

data that provides cost of billing and collections and administrative costs for IXC's and other interstate service providers. Alternatively, the Commission could establish a safe harbor percentage and invite comment on the reasonableness of that percentage. For example, the Commission could propose a safe harbor percentage of 20 percent and invite carriers to comment whether this is sufficient to allow for the full recovery of their costs associated with the recovery of USF contributions. This would allow input from a diverse group of carriers and provide them an opportunity to challenge the reasonableness of the safe harbor percentage and submit cost showings supporting why the amount is unreasonable.

Establishment of a “Collect and Remit” System for Contributions Could Lead to Instability in Universal Service Funding.

The Commission seeks comment on whether to replace the current universal service contribution methodology with a “collect and remit” system. As the Commission acknowledged in the FNPRM, “a collect-and-remit system would appear to effectively shift contribution obligations from carriers to their end-user customer, it may reduce incentives for carriers to recover universal service contributions from their customers, thereby risking the overall predictability and sufficiency of the universal service fund.”²⁴ The ILECs concur with the Commission’s assessment and do not support the implementation of a collect and remit system for universal service funding.

²⁴ FNPRM, para. 102
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**It is Appropriate for the Commission to Promote Uniform Labeling of
Separate Line-Item Charges on Customer Bills to Recover Carriers'
Contribution Costs.**

The Commission seeks comment on whether to require carriers that elect to impose a separate line-item charge on a customer's bill to recover their contribution costs to describe the line item as the "Federal Universal Service Fee." The ILECs agree with the Commission's tentative conclusion that "uniformity in labeling would better enable consumers to understand the charges and provide them a basis for comparison amongst providers."²⁵ In most cases the ILECs do not believe carriers would have a problem labeling the line item as proposed by the Commission. Most consumers do not have an appreciation for universal service nor have a desire to understand the purpose of universal service funding. It would be difficult to develop a description that would enable customers to better understand the purpose of the charge for universal service assessments. However, encouraging uniformity in labeling seems to be a good place to start. At least this helps to alleviate consumer confusion that results when the charge is described by carriers in different ways. In cases where carriers desire to deviate from the uniform description, they should be allowed to do so upon a showing of good cause or a request of waiver from the Commission.

CONCLUSION

There is not sufficient evidence to substantiate that the current revenue-based assessment, which is equitable and nondiscriminatory, will fail to provide

sustainable universal service funding. The Commission should continue to use historical interstate end-user revenues as the basis for the assessment of universal service contributions. The Commission should not adopt the connection-based assessment proposal since it may shift substantial payments from interexchange service providers to local exchange services, which is inequitable, discriminatory and fails to comply with the Act. If the Commission decides to adopt a connection-based approach, it should be modified as described herein, so that the interexchange, local exchange and mobile market segments continue to be assessed proportionate to their relative revenue percentages. If the Commission decides not to maintain revenue-based percentages for development of connection-based assessments, all providers, including IXC and ISPs, should be assessed for connections to the public network in an equivalent manner. The ILECs support the Commission's efforts to promote reasonable charges on customers' bills for the recovery of universal service contributions. The rules should promote uniformity in the development of separate line-item charges on customers' bills and should discourage unreasonable mark-ups in the calculation of these charges for universal service contribution cost recovery. The Commission should reject the proposal to implement a "collect and remit" system for universal service assessments. Finally, the Commission's rules should promote uniform labeling for separate line item charges for the recovery of universal service contributions.

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²⁵ FNPRM, para. 103
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